

VZCZCXRO8239  
PP RUEHCHI RUEHDT RUEHHM RUEHNH  
DE RUEHUL #1981/01 1650835  
ZNR UUUUU ZZH  
P 140835Z JUN 06  
FM AMEMBASSY SEOUL  
TO RUEHC/SECSTATE WASHDC PRIORITY 8440  
INFO RUCNASE/ASEAN MEMBER COLLECTIVE  
RUEHBJ/AMEMBASSY BEIJING 0798  
RUEHKO/AMEMBASSY TOKYO 0867  
RUCPDOG/DEPT OF COMMERCE WASHDC 1499

UNCLAS SECTION 01 OF 04 SEOUL 001981

SIPDIS

SENSITIVE  
SIPDIS

STATE FOR EAP/K AND EB/TPP  
COMMERCE FOR 4431/MAC/OPB/EAP/DUTTON  
PASS USTR FOR CUTLER, WEISEL, AUGEROT AND KI

E.O. 12958: N/A

TAGS: [ETRD](#) [PREL](#) [KS](#) [XC](#)

SUBJECT: KOREA-ASEAN FTA: TRADE IN GOODS AGREEMENT FINALIZED

REF: SEOUL 449 AND PREVIOUS

SUMMARY

1. (SBU) Korea and the Association of Southeast Asian Nations (ASEAN), with the exception of Thailand, finalized and signed the Trade in Goods (TIG) part of their free trade agreement (FTA) on May 16 in Manila. The agreement will liberalize 90 percent of tariff lines, amounting to 90 percent of trade volume by 2010. Liberalization follows two tracks: a "Normal Track," which accounts for 90 percent of goods and trade volume, and a "Sensitive Track," which applies to 6-7 percent of goods and 7 percent of trade volume. The Sensitive Track is further broken down into a "sensitive list" and a "highly sensitive list," each with its own staging periods and exclusions. The remaining three percent are taken up by tariff lines fully excluded from liberalization.

2. (SBU) Korea succeeded in cajoling ASEAN members into granting preferential treatment to some goods processed in the Kaesong Industrial Complex (KIC) located in North Korea (in which South Korean firms manufacture goods and parts for the South Korean market using cheap North Korean labor). However, such preferential treatment will apply to less than half of the products manufactured in the KIC -- more restrictive treatment than Korea was able to obtain in its FTAs with Singapore and the European Free Trade Association (EFTA). End summary.

THE NORMAL TRACK

3. (SBU) Kim Min-cheol, Country Coordinator for the Korea-ASEAN FTA in the Ministry of Foreign Affairs and Trade (MOFAT), provided Econoff with a detailed briefing on the provisions of the FTA on June 13. He explained that for purposes of the FTA, ASEAN is divided into two groups -- the six, more developed, original ASEAN members (ASEAN 6) and the four lesser developed members: Cambodia, Laos, Myanmar, and Vietnam (CLMV). Obligations and staging periods differ somewhat among the two groups, with the CLMV countries enjoying longer phase-in periods for liberalization.

4. (SBU) According to Kim, the bulk of goods traded among Korea and the ASEAN members are to be liberalized according to what the TIG part of the FTA defines as the "Normal Track." This box contains 90 percent of tariff lines comprising 90 percent of the trade volume between Korea and the individual ASEAN members. Each ASEAN member will

maintain its own concession list -- there is not a common ASEAN list. Korea and the ASEAN 6 countries will eliminate tariffs included in the Normal Track by 2010, except for Indonesia and the Philippines, which will be allowed to wait until 2012 to fully eliminate tariffs on 5 percent of their Normal Track tariff lines. Vietnam will have until 2016 to eliminate its Normal Track tariffs, with Cambodia, Burma, and Vietnam having until 2018.

¶15. (SBU) Korea will eliminate 70 percent of its Normal Track tariffs (i.e. 70 percent of 90 percent) upon the agreement's entry into force, while the ASEAN 6 countries will eliminate 50 percent of their Normal Track tariffs upon implementation. For tariffs not immediately eliminated, staging periods are calculated by formula, based on the respective products' initial MFN applied tariff rate, with higher tariffs being eliminated over a longer period of time than lower initial tariffs. All tariff lines are based on HS six-digit categories.

#### THE SENSITIVE TRACK

¶16. (SBU) The Korea-ASEAN TIG Agreement contains extensive provisions for according special treatment to politically sensitive items. Sensitive Track goods are placed in one of two boxes: the "sensitive list" or the "highly sensitive list." Korea and ASEAN 6 countries must reduce tariffs on items in the sensitive list to (note: not "by") 20 percent by 2012, and to 0-5 percent by 2016. The CLMV countries have longer staging periods of 2016 and 2020, respectively.

¶17. (SBU) The highly sensitive list contains five boxes:

SEOUL 00001981 002 OF 004

-- Box A: Tariffs cut to 50 percent by 2016 (Korea and ASEAN 6) or 2024 (CLMV);

-- Box B: Tariffs cut by 20 percent (same time periods);

-- Box C: Tariffs cut by 50 percent;

-- Box D: Goods receive a Tariff Rate Quota (TRQ);

-- Box E: Total exclusion.

¶18. (SBU) There are three basic restrictions on placing items in the highly sensitive list. First, each party may place a maximum of 200 items on this list. Second, parties may place a maximum of 40 items in Box E (total exclusion). Third, none of the items placed on the highly sensitive list can account for more than three percent of the import volume (2004 baseline) for that item from the other party. For example, if automobiles took up more than three percent of Indonesia's imports from Korea, Indonesia could not place autos on the highly sensitive list. However, this factor is not dynamic, but rather fixed at 2004 levels, so even if import volume rises above the three percent threshold, the party would not have to subsequently liberalize tariffs for that item.

¶19. (SBU) According to Kim, it is essentially left up to each party's discretion as to which items are placed on the various lists. He did admit, however, that there was some negotiation designed to prevent a party from placing a given item on the highly sensitive list. For example, while Malaysia has put automobiles on its total exclusion list, Korea convinced it to open up the CKD (automobile knockdown kit) market.

#### AGRICULTURE

¶10. (SBU) All of the 200 goods that Korea placed on its highly sensitive list are agricultural or fisheries items.

(ASEAN members included various industrial and chemical goods on their list.) In addition to the 40 excluded items in Box E, Korea also placed five items whose tariff is less than 50 percent in Box A (tariff reduced to 50 percent), thus providing those goods with a de facto exclusion. According to Kim, Korea originally intended to place many more such items in Box A, but the ASEAN members strenuously objected to Korea using Box A as a de facto exclusion list, and they succeeded in forcing Korea to limit such items to five.

¶11. (SBU) Nevertheless, Korea will have to open up its agriculture markets more under this FTA than under its previous agreements. Kim said that Korea has 445 tariff lines (HS six digit) for agricultural and fisheries products. Since "only" 200 can be placed on the highly sensitive list and "only" 45 completely excluded, over half of the agricultural/fisheries tariff lines will have to be opened to some extent.

#### KAESONG INDUSTRIAL COMPLEX

-----

¶12. (SBU) According to Kim, Korea had to negotiate very hard to wring any concessions on goods processed in the KIC out of the ASEAN members. Unlike Korea's previous FTA partners with which it negotiated preferential treatment for goods processed in Kaesong -- Singapore and EFTA -- ASEAN had economic interests opposed to granting preferential treatment, as Kaesong presents direct competition for the low-wage, light industrial goods that form ASEAN members' competitive advantage.

¶13. (SBU) Kim said the final deal on Kaesong was not reached until the May 16 Korea-ASEAN trade ministers' meeting, where Korean Trade Minister Kim Hyun-chong reportedly made a forceful intervention on behalf of the Kaesong provisions with his counterparts.

¶14. (SBU) The resulting compromise was that the same "outward processing" language that Korea used in the EFTA FTA to secure preferential treatment for Kaesong goods, which uses a content requirement of at least 60 percent South Korean content for an "outward processed" good to be considered originating, was also included in the Korea-ASEAN

SEOUL 00001981 003 OF 004

TIG Agreement. However, an additional hurdle was placed on Kaesong-processed goods. Korea provided ASEAN with a list of 232 goods that are currently being processed in Kaesong, or will be by the end of 2006. From this list, each ASEAN member separately will choose 100 of these to which it will grant preferential treatment.

¶15. (SBU) Additionally, the ASEAN members will develop a common list of approved Kaesong items, notionally by the end of August. After that, there will be 10 individual Kaesong lists plus one common list. For each individual ASEAN member then, the number of Kaesong goods to which it individually accords preferential treatment will equal 100 - - whichever goods are on the common ASEAN list, plus additional goods it selects so that the total comes up to ¶100.

¶16. (SBU) In addition to the numerical limitation of approved Kaesong items, the agreement also provides ASEAN members the right to review the situation at any time and elect to stop providing preferential treatment to Kaesong. ASEAN members also enjoy a special safeguard provision for Kaesong goods that is not subject to dispute settlement and can be used virtually unconditionally.

#### THAILAND OPTS OUT

-----

¶17. (SBU) Thailand opted out of the TIG Agreement. While

the Thai delegation cited political confusion in Bangkok as the reason for being unable to sign at the May 16 trade ministers meeting, the real underlying reason was Thailand's unwillingness to accept Korea's exclusion of rice, Thailand's chief export.

¶18. (SBU) According to Kim, Thailand can join the TIG at any time in the future, and Thailand is still a part of the remaining FTA negotiations on services and investment. However, he noted that Thailand would essentially have to join the TIG on a "take it or leave it" basis, which would put Thailand at a disadvantage. Kim said that Korea does plan to try to entice Thailand to sign the TIG by sweetening its offers in the service negotiations, but Kim left no room for the possibility of giving Thailand any concessions on rice, including by increasing the Thai country specific quota under Korea's 2004 rice agreement with the WTO.

#### SERVICES AND INVESTMENT -----

¶19. (SBU) With the TIG Agreement finalized, Agreements on Services and Investment remain to be completed to finish the Korea-ASEAN FTA "package." Each agreement is considered a stand-alone agreement, however.

¶20. (SBU) Negotiations on services and investment are ongoing, with a target completion date of the end of 2006. Kim admitted that Korea's "ambition is not so high" in the services and investment areas, where Seoul is pursuing a basic WTO-plus agreement -- with the "plus" being relatively minor. The negotiating parties are using each other's revised GATS offers as the basis for services concessions. The Korea-ASEAN Investment Agreement is being modeled on the ASEAN Investment Agreements (AIA's) the ASEAN members have concluded amongst themselves.

#### COMMENT -----

¶21. (SBU) The Korea-ASEAN Trade in Goods Agreement, while not nearly as comprehensive as a U.S.-style FTA, represents a fruitful conclusion to a complicated, multi-party negotiation, and probably helped to increase Korea's negotiating experience and prowess. The agreement also has economic significance, providing for substantially opened trade between Korea and its fourth-largest trading partner (counting ASEAN as a single entity).

¶22. (SBU) The agreement is expected to be uncontroversial in Korea, and should easily pass the National Assembly in time for entry into force by August. This is despite the fact that it will open Korea's agricultural markets more than Seoul's previous FTAs. In this regard, Korea's ASEAN negotiation team is benefiting from the fact that the Korea-ASEAN FTA is being almost completely drowned out, both in

SEOUL 00001981 004 OF 004

terms of media interest and interest group attention, by the U.S.-Korea FTA negotiations.

VERSHBOW